

Testimony for the Senate Appropriations Committee September 7, 2016

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HB 4338 – Support

Introduction

- NTSA is an organization with more than 3,300 members who serve the public-sector retirement plan industry
- For more than 25 years, we have been nationally recognized for our thought leadership and policy expertise with regard to public-sector retirement plans.
- NTSA is part of the American Retirement Association, a collective group of more than 20,000 affiliate and credentialed members of the American Society of Pension Professionals & Actuaries (ASPPA), the ASPPA College of Pension Actuaries (ACOPA), the National Association of Plan Advisors (NAPA) and NTSA.
- American Retirement Association members are recognized experts in private- and public-sector defined benefit and defined contribution plans.

There is No Perfect Plan Design...

- There's no universally perfect plan design or structure.
- A plan design that works for a large corporation would likely not be appropriate for a small professional practice and a retirement plan designed for a large university system may not be appropriate for a rural water district.
- Through our 25 years of experience, we have found that K-12 public education is truly a unique environment that requires special consideration and knowledge in voluntary retirement plan design.

...But the "Consolidation-Without-Local-Options" Design Isn't Working in Michigan

- Michigan's state 457 plan is similar to retirement plan designs that have been tested in other states.
- It has a single-provider structure with Voya and provides less than minimal financial education or financial advice service to its participants.
- As other witnesses today will show, Tier 2 participation is not where it needs to be and the individual engagement that HB 4338 will encourage and allow for will be the key to solving that problem.

...Just Like "Consolidation-Without-Local-Options" Hasn't Worked in Other States

- North Carolina
 - The North Carolina Treasurer's office established a single-provider, low-cost, low-service 403(b) plan in 2012.
 - Based on experience in 401(k) world, state believed that public school employees would benefit through lower costs of a state-run plan and that an increase in

participation and savings rates would be a natural result of eliminating a confusing array of investment choices.

- At the end of 2014, some 80,876 public education employees had access to the state plan, but only 544 were contributing. That's 0.6%.
- The baseline metric for a reasonable voluntary retirement plan participation rate is about 30% (or 24,000 NC teachers, not 544).
- From 2012 through 2016, the North Carolina Treasurer's office will have spent more than \$300,000 on outside consulting and management fees to run a program for less than 600 people.
- At the behest of the recordkeeper selected to run the state 403(b) plan, the treasurer's office is now studying the feasibility of implementing mandatory 403(b) enrollment policy as a means to correct the fundamental issue that the plan does not meet the needs of the stakeholders.

- Iowa

- The Iowa Department of Administrative Services (DAS) established a state-run 403(b) plan for all Iowa public schools in 2009.
- The result was choice of a handful of providers without distinction between the services or investments offered.
- As Iowa was one of the first states to adopt the "institutional" retirement plan model for voluntary 403(b) plans, NTSA conducted a study of participation rates in a sample of Iowa school districts between 2009 and 2016.
- What we found is that voluntary participation rates in some districts dropped by up to 50% from 2009 to 2010 and have not meaningfully recovered.
- 403(b) plan participants who lost access to the 403(b) plans to which they contributed prior to 2009 were significantly less likely to restart their retirement savings with a different 403(b) provider.
- In an effort to boost retirement savings rates by meeting public education employees' needs, the DAS has now created a roster of additional 403(b) providers to supplement the four remaining companies selected by the plan consultant.

- Virginia

- Virginia implemented a hybrid defined contribution plan in 2014.
- A single, low-cost provider, consistent with the large 401(k) plan model, was selected to run the DC plan for public school employees.
- The Virginia plan seemed the most likely of these state-run consolidation plans to succeed because the VRS program offered a 50% match on the first 5% of salary contributed to the plan and private-sector 401(k) match plans average a 70% participation rate.
- By March of 2015, the participation rate was less than 5%.
- In 2015, the Virginia legislature amended the 2012 statute creating the Virginia hybrid retirement plan, directing that local school districts may now select additional providers and recordkeepers to service their voluntary retirement plans.

- Virginia schools are now going through the process of re-incorporating the providers that were originally pushed out.

HB 4338 Fills the Gaps

- TPA structure, with TPA selected by ORS, to administer multiple-provider platform
 - State has no duty to monitor
 - Investment vendors must register with TPA and work with TPA, not state
 - TPA must publish on their website the list of each vendor and adviser per reporting unit
 - TPA shall report to ORS annually
- Between 3 and 8 investment vendors designated by ORS, of which districts can choose at least 1 for their teachers
 - RFP shall require disclosure of all conflicts, convictions, investigations, disqualifications
 - RFP at least once every 5 years
 - RFP requires investment vendors have local advisers
- Investment vendors must have local advisers who provide at least 1 hour of financial literacy education at the reporting unit every school year